Before the
PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

In the Matter of the Application of Qwest Communications Corporation, LCI International Telecom Corp., USLD Communications, Inc., and U S WEST, Communications Inc. For Approval of the Merger of their Parent Corporations, Qwest Communications International Inc. and U S WEST, Inc.	))))))))))))	Docket No. 99-A_______

DIRECT TESTIMONY OF PAUL F. GALLANT

ON BEHALF OF

QWEST COMMUNICATIONS CORPORATION,

LCI INTERNATIONAL TELECOM CORP., AND

USLD COMMUNICATIONS, INC.

AUGUST 19, 1999

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH QWEST COMMUNICATIONS INTERNATIONAL INC.

A. My name is Paul F. Gallant. My business address is Qwest Communications International Inc., 4250 North Fairfax Drive, Arlington, VA 22203. My title is Senior Policy Counsel for Qwest Communications International Inc. ("Qwest Inc.").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I am a graduate of Georgetown University where I received a Bachelor of Arts degree in political science in 1988. I also received a Juris Doctorate from Catholic University School of Law in 1993. I am admitted to the bar in Rhode Island and the District of Columbia.

Prior to joining Qwest Inc. in May of this year, I held several positions at the Federal Communications Commission. From November 1997 to April 1999, I served as legal advisor to Commissioner Gloria Tristani, whom I advised on telecommunications policy issues, including access charges, Section 271, universal service and the Internet. From May to November 1997, I served in the same position for Commissioner James Quello. As Legal Counsel to the Common Carrier Bureau Chief from December 1996 to May 1997, I advised the bureau chief on policy and internal process matters. I also served as a staff attorney in the Common Carrier Bureau Policy Division (October 1995 to December 1996), the Office of the General Counsel Competition Division (March 1994 to October 1995), and the Cable Services Bureau (October 1993 to March 1994).

Q. WHAT ARE THE DUTIES OF YOUR CURRENT JOB?

A. As Senior Policy Counsel, I develop policy positions in conjunction with Qwest business units and advocate those positions before the FCC and state regulatory commissions.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my statement is twofold. First, I will furnish the Public Utilities Commission of the State of Colorado ("Commission") with background information about pre-merger Qwest Inc., and its operations, services and facilities, as well as provide details regarding the proposed merger of Qwest Inc. and U S WEST, Inc. ("U S WEST, Inc.").

Second, my statement will describe for the Commission how the merger will serve the public interest by producing substantial benefits for the combined company's current and future customers in Colorado. Once the merger is complete, the combined company will remain headquartered in Denver and will continue to be particularly focused on the needs of all residential and business customers throughout the 14-state U S WEST, Inc. region. Post-merger Qwest Inc. will be committed to all U S WEST, Inc. customers, urban and rural, business and residential. The combined company will be well situated to improve and enhance services for consumers as telecommunications operations are revolutionized by the Internet and advances in technology. The sooner the merger is approved, the sooner the consumers of Colorado can begin reaping the rewards of the greater competition and innovation offered by the combined company.

Q. PLEASE DESCRIBE THE CORPORATE STRUCTURE OF PRE-MERGER QWEST INC.

A. Qwest Inc. is a Delaware corporation with its principal office and place of business located at 555 Seventeenth Street, Denver, Colorado 80202. It is publicly traded on the NASDAQ stock exchange under the symbol "QWST." Approximately 39 percent of the common stock of Qwest Inc. is directly or indirectly owned by Anschutz Corporation, a Delaware corporation all of whose stock is owned and voted personally by Philip F. Anschutz, who also is the Chairman of the Board of Qwest Inc.

Q. PLEASE BRIEFLY DESCRIBE PRE-MERGER QWEST INC.'S OPERATIONS.

A. Currently, Qwest Inc. provides Internet-based telecommunications services to more than 4 million customers worldwide. Three of its subsidiaries — Qwest Communications Corporation ("QCC"), LCI International Telecom Corp. (d/b/a Qwest Communications Services) ("LCI") and USLD Communications, Inc. ("USLD") — are authorized to provide facilities-based telecommunications services in Colorado. A fourth subsidiary, Phoenix Network, Inc., ("Phoenix" and along with QCC, LCI and USLD, collectively, "Qwest") operates solely as a reseller in Colorado. Through these subsidiaries, pre-merger Qwest Inc. provides long distance and operator services on both a facilities-based and resale basis, and serves more than 16,000 residential customers and nearly 6,500 business customers within the state. Pre-merger Qwest Inc. employs more than 1,940 people in Colorado with an annual payroll of more than $17.9 million.

Qwest is authorized to provide intrastate service in 47 other states and the District of Columbia. QCC, LCI and USLD also are authorized by the Federal Communications Commission ("FCC") to provide interstate telecommunications services, including international telecommunications services, as non-dominant carriers.

Qwest Inc. recently completed construction of a nationwide interexchange fiber optic network built with the industry's most advanced technologies. It offers 10 gigabit, OC-192 speed and is constructed on a "self-healing" SONET ring with 2.4 gigabit (OC-48) Internet Protocol architecture. The Qwest network reaches 18,500 miles, connects to 150 cities across the United States, and extends 1,400 miles into Mexico. An additional 315 miles will be added by the end of 1999. The network reaches from west to east across the entire state of Colorado, entering the state at the Utah border from Salt Lake City, traveling through Grand Junction and Denver and continuing into Kansas. Another segment begins in Denver and stretches south through Colorado Springs to the New Mexico border on its way to Santa Fe. Pre-merger Qwest Inc. also is part owner of the newest digital Atlantic Ocean cable, TAT-14, providing connectivity to Europe. There the company has joined with the Dutch telecommunications company KPN in a joint venture, KPNQwest, that is building an 8,100-mile European network that will connect 39 cities. In the Asia-Pacific region, the company is part of a consortium building a 13,125-mile cable from California to Japan and the Pacific Rim. That route will be completed in the second quarter of the year 2000.

In addition, pre-merger Qwest Inc., directly and indirectly through wholly-owned subsidiaries both in the United States and worldwide, constructs and installs fiber optic communications systems for other telecommunications companies and provides multimedia communications and Internet services to interexchange carriers and other communications entities, businesses and consumers.

II. <u>THE QWEST INC. - U S WEST, INC. MERGER</u>

Q. PLEASE DESCRIBE THE PROPOSED MERGER BETWEEN QWEST INC. AND U S WEST, INC.

A. On July 18, 1999, Qwest Inc. and U S WEST, Inc. ("U S WEST, Inc.") entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which U S WEST, Inc. will merge with and into Qwest Inc. The boards of directors of both Qwest Inc. and U S WEST, Inc. have approved the Merger Agreement. Subject to shareholder, regulatory, and other approvals as set forth in the Merger Agreement, the anticipated closing date is July 30, 2000.

In order to effectuate the merger, Qwest Inc. will issue shares of its common stock having a value of $69.00 for each share of U S WEST, Inc. common stock, subject to a "collar" on Qwest Inc.'s average stock price between $28.26 and $39.90 per share. The number of Qwest Inc. shares to be exchanged for each U S WEST, Inc. share will be determined by dividing $69.00 by a 15-day weighted average of trading prices for Qwest Inc. common stock over a 30-day measurement period ending three days prior to closing, but will not be less than 1.72932 shares (if Qwest Inc.'s average stock price exceeds $39.90 per share) or more than 2.44161 shares (if Qwest Inc.'s average stock price is less than $28.26 per share). If necessary, the obligation under the "collar" may be satisfied in whole or in part with cash if Qwest Inc.'s average stock price is below $38.70 per share.

Under the terms of the Merger Agreement, upon closing, U S WEST, Inc. will be merged into Qwest Inc. and the separate corporate existence of U S WEST, Inc.

will then cease. The direct and indirect wholly-owned subsidiaries of pre-merger Qwest Inc. and U S WEST, Inc. that hold operating certificates or other authorizations will survive as direct or indirect wholly-owned subsidiaries of the merged company.

Q. WILL THE MERGER INVOLVE THE ASSIGNMENT OF AUTHORIZATIONS OR LICENSES?

A. No. The merger does not involve any assignment of the authorizations or licenses of either Qwest or U S WEST, Inc.'s subsidiary, U S WEST Communications, Inc. ("U S WEST"), or any change in their respective operating subsidiaries that hold such authorizations or licenses. The same companies will continue to provide service to the public. Thus, administratively, the merger will be transparent to Qwest's and U S WEST's respective customers, and neither will experience any degradation of services as a result of the merger.

Q. PLEASE DISCUSS THE MANAGEMENT OF THE POST-MERGER COMPANY.

A. Upon closing of the merger, Philip F. Anschutz, the current Chairman of the Board of pre-merger Qwest Inc., will become the Non-Executive Chairman of the combined company. Joseph P. Nacchio will continue as the Chairman and Chief Executive Officer, and Solomon D. Trujillo, currently the Chairman and Chief Executive Officer of U S WEST, Inc., will be a Chairman of Qwest Inc. and President of the broadband local and wireless business of Qwest Inc. The Board of Directors of the reconstituted company will consist of 14 members including Messrs. Anschutz, Nacchio and Trujillo, with a total of seven members to be designated by each of pre-merger Qwest Inc. and U S WEST, Inc. Additionally, the companies' designees on the Board of Directors will be represented equally on all Board committees.

Post-merger Qwest Inc. also will establish an Office of the Chairman whose members will be Messrs. Anschutz, Nacchio and Trujillo. The Office of the Chairman will act by majority vote and will have final authority with respect to enumerated corporate actions, including, among others, material acquisitions and dispositions, the allocation of capital resources, termination of certain senior executives and the setting of general corporate strategy.

The members of the Office of the Chairman will jointly appoint certain designated executive positions within Qwest Inc. For a period of one year following closing, the twenty most senior policy-making executives of post-merger Qwest Inc. will be drawn in substantially equal numbers from among the officers of pre-merger Qwest Inc. and U S WEST, Inc., and each company will be proportionally represented at each level of senior management.

The combined company will employ approximately 64,000 people. Its headquarters will be located in the U S WEST, Inc. headquarters building in downtown Denver. It will continue to be listed on the Nasdaq National Market under the existing trading symbol "QWST."

Q. HOW WILL POST-MERGER QWEST INC. SATISFY THE REQUIREMENTS OF SECTION 271 OF THE TELECOMMUNICATIONS ACT OF 1996?

A. In order to satisfy the Telecommunications Act of 1996 ("1996 Act"), the combined Qwest Inc. will be required to divest itself of interLATA services it currently offers in the U S WEST, Inc. region. Qwest Inc. is now in the process of identifying affected services and making arrangements to divest those services and customer accounts. Minimizing any potential customer confusion or disruption is integral to the company's divestiture decision-making process, and it will comply with any applicable Commission requirements with respect to any changes to customer accounts. Business incentives of the combined company will provide impetus for compliance with the prerequisites to interLATA entry as expeditiously as possible.

Q. WHY DID QWEST INC. DECIDE TO MERGE WITH U S WEST, INC.?

A. We anticipate the merger with U S WEST, Inc. will create a new kind of company for a new era of opportunity. Pre-merger Qwest Inc. has used acquisitions, alliances, joint ventures and investments to move farther and faster in two years than many companies hope to in ten. Alliances with Microsoft and Netscape are bringing new products to customers quickly and efficiently. Acquisitions of such companies as Icon CMT and LCI have built our infrastructure, reach and range of services. Joint ventures like KPNQwest and relationships with companies like Covad and Rhythms NetConnections are expanding the reach of the Qwest network. The merger with U S WEST, Inc. is the latest strategic move to further our three-part formula for growth: employ the most advanced technology; always be agile and quick to market; and maintain a fanatical focus on our customers.

Qwest Inc. is not alone in its strategy of building corporate relationships to further its objectives. The trend in the telecommunications industry is to achieve greater market flexibility and to augment market share through mergers, joint ventures and other alliances.

Qwest Inc. is seeking a partner with greater experience and a customer base in the local exchange services market. As an incumbent local exchange carrier also based in the West, U S WEST, Inc. provided an obvious match. Pre-merger Qwest

Inc. offers U S WEST, Inc. — and therefore U S WEST, Inc. customers — access to innovative services, a worldwide high quality network, and increased product options. Importantly, this merger is not a combination of two incumbent local telephone companies, and it is not increasing the number of local customers under one roof. This merger is procompetitive, placing the post-merger Qwest Inc. in a better position to compete against larger combinations both in and out of region.

III. THE MERGER WILL SERVE THE PUBLIC INTEREST

Q. BRIEFLY OUTLINE THE BENEFITS OF THE MERGER TO CONSUMERS.

A. The proposed merger of Qwest Inc. and U S WEST, Inc. will bring together our advanced, broadband fiber-optic network and U S WEST, Inc.'s technologically advanced local telecommunications services. Because the two companies offer different services and have different core capabilities, and because overlaps between the services of the two companies are very limited in scope,1/ the merger will create a new company with a significantly increased ability to meet the full range of rapidly evolving needs of business and residential telecommunications customers. Pre-merger Qwest Inc. understands the importance of U S WEST's core business, and the company is strongly committed to high-quality local services post-merger.

The merger will produce cost savings that will allow the combined company to invest more in new products and improved infrastructure, and consumers will enjoy a greater array of services from one company. Most importantly, the merger will create powerful business incentives for the combined company to obtain Section 271 approval from the FCC in order to reenter the in-region interLATA market in

1/ The only overlap between the two companies with respect to regulated services is intraLATA toll service.

Colorado as soon as possible. As soon as Qwest and U S WEST receive approval for the merger, the combined company can move forward to achieve these goals.

The merged company will be in a position to accelerate the roll-out of new products, such as high-quality broadband services in the U S WEST, Inc. region and throughout the United States. The services offered via the new company's fiber and DSL broadband technology will offer the most substantial and distinctive alternative to broadband service offerings by incumbent cable system operators. In addition, the implementation of the shared growth strategy of each company, including deployment of an Internet Protocol platform, will accelerate local broadband connectivity for customers. Rolling out high-speed local access technologies such as DSL requires an aggressive, growth-oriented investment program. The merger will create a forward-looking company with increased access to capital and a substantial broadband focus, thus enabling U S WEST and Qwest to utilize their DSL capabilities to the fullest extent possible to make available these local access alternatives.

Q. WILL THE POST-MERGER QWEST INC. CONTINUE ITS CURRENT JOINT BUSINESS VENTURES AND PROJECTS TO ACHIEVE ITS GOAL OF PROVIDING CUSTOMERS WITH A FULL RANGE OF QUALITY SERVICES?

A. Yes. We view our efforts to create alliances as a major part of our strategy to provide customers access to the latest technologies and to a full range of telecommunications services. Subject to compliance with the 1996 Act, the merged company will have the ability to provide end-to-end telecommunications services over its own network of facilities. U S WEST, Inc. has an established base of 16 million access lines and the associated customer relationships in a region that includes six of the fastest growing metropolitan areas in the United States. We have a state-of-the-art network of fiber optic facilities connecting key cities across the United States, including Denver and Colorado Springs. We also have capacity on submarine cables and are developing a fiber optic network in Europe through our joint venture with KPN. Combining these complementary resources will enable the combined company to provide a broad array of local, long distance and international voice and data services with maximum efficiency, which will ultimately benefit consumers through lower prices and greater choices.

In addition, to enhance its ability to provide advanced applications and services, the new company will continue to build upon Qwest Inc.'s and U S WEST, Inc.'s existing technology alliances with Cisco, Hewlett-Packard, Microsoft, Oracle, SAP America, Siebel Systems and Sun Microsystems, as well as its strategic investments in Critical Path, BackWeb and Intertainer. The post-merger company will leverage the skill sets and distribution channels Qwest Inc. has acquired through its recently announced joint venture with KPMG, called Qwest Cyber.Solutions, to sell new Internet and Web hosting e-commerce products into U S WEST, Inc.'s business markets.

We have a strong commitment to the communities we serve and will continue, as a part of that commitment, to actively participate in the Abilene Network, a project of the University Corporation for Advanced Internet Development, home of Internet2. Developed in partnership with Cisco, Nortel and Indiana University, the Abilene Network provides unsurpassed capabilities in networking and expanded resources for technological innovations related to virtual laboratories, digital libraries and distance education, among other applications. The Qwest network is used as the platform for this effort. Internet2 is an effort by federal agencies, industry leaders, research centers and more than 140 universities, including Colorado State University, to accelerate the next stage of Internet development to meet emerging needs in higher education. Through this project, pre-merger Qwest Inc. will contribute approximately $1 million worth of free circuits (OC-12 and OC-48) this year to Colorado State University alone.

Q. WILL THE MERGER HELP INCREASE COMPETITION IN COLORADO?

A. Definitely. The merger will serve the public interest by providing significant additional incentives for the combined company to encourage local exchange services competition in Colorado. The merger reflects a major commitment on the part of pre-merger Qwest Inc. and U S WEST, Inc. to become an end-to-end facilities-based provider of voice, data and integrated services, including in-region interLATA services. However, to comply with the Telecommunications Act of 1996, Qwest must discontinue all interLATA service in the U S WEST, Inc. region, which represents approximately 8 percent of revenues to its parent, Qwest Inc., as projected for fiscal year 2000. It will do so by divesting itself of those services prior to the closing of the proposed merger.

To achieve its business objective of providing end-to-end telecommunications services to all customers, both inside and outside the U S WEST, Inc. region, post-merger Qwest Inc. must be able to reenter the interLATA market within the U S WEST, Inc. region. To effect this strategy and recapture those lost revenues, the combined Qwest Inc. must obtain Section 271 approval. Accordingly, there will be powerful business incentives for the post-merger Qwest Inc. to obtain Section 271 approval from the FCC so that the company can reenter the in-region interLATA market in Colorado as soon as possible.

IV. CONCLUSION

Q. WILL YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. The proposed merger will join the market and operational expertise of a local exchange provider with the innovative and dynamic operations of a competitive carrier. The combined company will remain committed to serving the local customer base while the synergies created by the merger will allow the company to enhance and improve all of the services offered to Colorado consumers. Those benefits for current and future customers resulting from the combination of the two companies will be best realized if the merger is allowed to proceed as quickly and smoothly as possible.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT P

DIRECT TESTIMONY OF PAUL R. McDANIEL

B